



# OUTA Presentation to NERSA Eskom's 2018/19 application

NOVEMBER 2017

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# INTRODUCTION

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- ❑ OUTA is a proudly South African non-profit civil action organisation, supported and funded by the public who are passionate about improving the prosperity of our nation.
- ❑ OUTA was established to hold to account, those in authority who abuse their power w.r.t. Tax Payers money.

# OUR REQUEST

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- ❑ To recognise that Eskom's prolonged tariff increases have endured without sufficient restraint on growing inefficiency, mismanagement, maladministration and corruption.
- ❑ That NERSA in partnership with (DPE, National Treasury, DPME and DOE) assist to introduce rigorous accountability of Eskom's leadership to acceptable levels of efficiency & corporate governance.
  - Paradigm shift (business unusual).
- ❑ That NERSA does not grant approval for any tariff increase in Eskom's 2018/19 revenue requirement application.

# OUR CONCERNS

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1. Declining Corporate Governance
2. Lack of Transparency
3. Growing Inefficiencies
4. Damaging Price Trajectory
5. Regulatory Decision Making Process

# DECLINING CORPORATE GOVERNANCE

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- ❑ State of Capture Report;
- ❑ Parliamentary hearings & reports reveal a leadership out of touch with their fiduciary duties and implications of questionable conduct;
- ❑ Unacceptably high growth Irregular Expenditure (R2,9bn 2017)
- ❑ Deficiencies in internal controls, expenditure monitoring, regulatory oversight
  - Capex Projects (New Build) – cost overruns: Medupi, Kusile & Ingula;
  - Operational Costs: Primary Fuel, HR, Transportation.
- ❑ Procurement irregularities
  - McKinsey/Trillian, Executive Family Contracts, Tegeta

# LACK OF TRANSPARENCY

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- ❑ Operating Costs & Indices unavailable
  - Omissions of Coal Burn Volume - Pg 150;
  - Coal Stockpiles per Power Plant - Pg 152  
eg. Eskom's approved stockpile policy not attached to applic;
  - Road Transport Indices and Escallation - Pg 153.
- ❑ Eskom fails to disclose information as is required in the Promotion of Access to Information Act, 2000 (PAIA);
- ❑ Inconsistency of Accounting Referencing

# TRANSPARENCY ?

Table 41: Coal Burn volume (Kt) per Power Station

Power Stations	Coal Burn Kt			Purchases volume ratio FY19			Burn allocation FY19			
	Actuals 2016/17	Projection 2017/18	Application 2018/19	Cost Plus	Fixed Price	MT	Cost Plus	Fixed Price	MT	Total
Kusile										
Medupi										
Duvha										
Kendal										
Lethabo										
Majuba										
Matimba										
Matla										
Tutuka										
Arnot										
Camden										
Grootvlei										
Hendrina										
Komati (Comm)										
Kriel										
<b>Total Coal Burn (Kt)</b>	113 737	116 099	112 397				45 944	30 898	35 555	112 397

TABLE 43: ESCALATION COMPONENTS FOR FY18

Component	Portion	Source Document	Index	Weighted Index
PPI Component				
Labour				
Fuel				
Electricity				
<b>Total</b>				

## 22.6 Road transport indices and escalations

The following table provides indications of values related to escalations.

TABLE 44: ROAD TRANSPORT INDICES AND ESCALATION

Component	Proportion	Index Linked
Labour		
Cost of Capital (Applicable to vehicles not fully depreciated)		
Fuel (Diesel)		
Maintenance		
Lubricant and tyres		
Depreciation		
CPI		
<b>Total</b>		

## 22.4 Coal stockpile volumes

Emergency stockpiles at Arnot, Henrina, Duvha, Camden and Grootvlei hold coarse coal to alleviate coal handling problems during the rainy season. The table below reflects the tonnes of coal on stockpiles during FY17 and the first quarter of FY18. The results are from the coal stock survey conducted at in February 2017 and in May 2017. They will therefore differ from the final stock volumes at the end of March 2017.

TABLE 42: VOLUME OF COAL ON STOCKPILE (TONNES)

	Actuals FY17				FY18			
	Emergency	Strategic	Seasonal	Live	Emergency	Strategic	Seasonal	Live
Arnot								
Kriel								
Lethabo								
Tutuka								
Hendrina								
Matla								
Duvha								
Kendal								
Majuba								
Matimba								
Camden								
Grootvlei								
Komati								
Medupi								
Kusile								
<b>TOTAL</b>	455 351	23 788 816	2 396 452	1 603 351	458 992	22 965 642	2 163 985	1 226 401

# REGULATORY DECISION MAKING PROCESS

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- ❑ NERSA may use its discretion to in the application of the MYPD rules
- ❑ Eskom's lack (or inability) to provide full disclosure of material facts hinders NERSA from making informed decision.
- ❑ Is NERSA in a position to grant an increase? **We believe not.**
  - NERSA **cannot** apply its mind objectively if not presented with relevant (and accurate) facts;
  - Relevant facts = Accurate RAB, expenditure (coal procurement), etc
- ❑ Results in ineffective public participation (lack of transparency (incomplete /outdated information and data) – compromises integrity of the regulatory process.

# GROWING INEFFICIENCIES

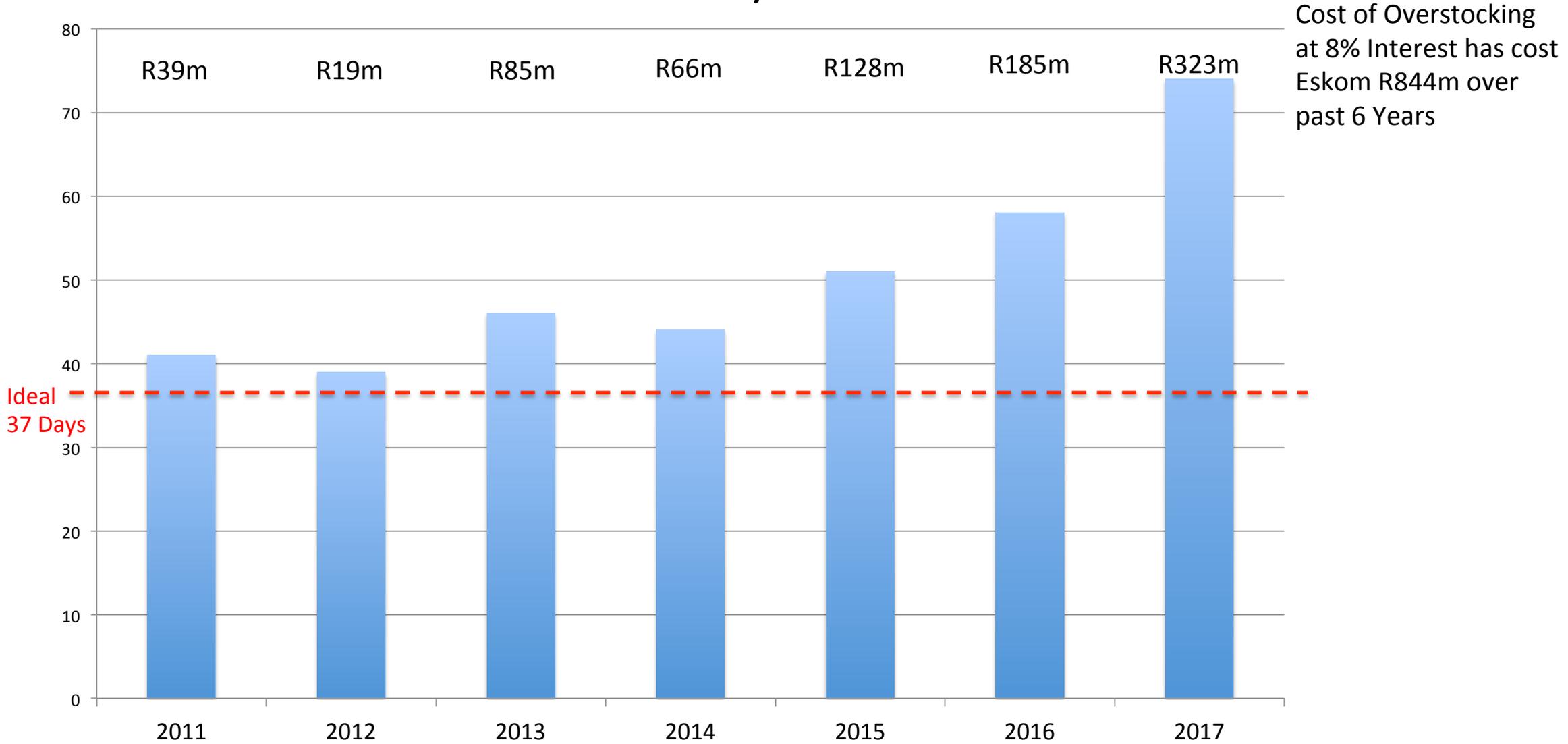
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- ❑ The Legal framework requires that Eskom may only recover its costs and earn a return if it is an *“efficient operator”*.
- ❑ Eskom has been allowed to increase its headcount / salary costs well ahead of reasonable expectations, with productivity declining by 32% over past decade.
- ❑ Coal stockpiles have cost Eskom almost R1bn in finance costs over past 6 years.
- ❑ Reports of coal quality and audit processes compromised.

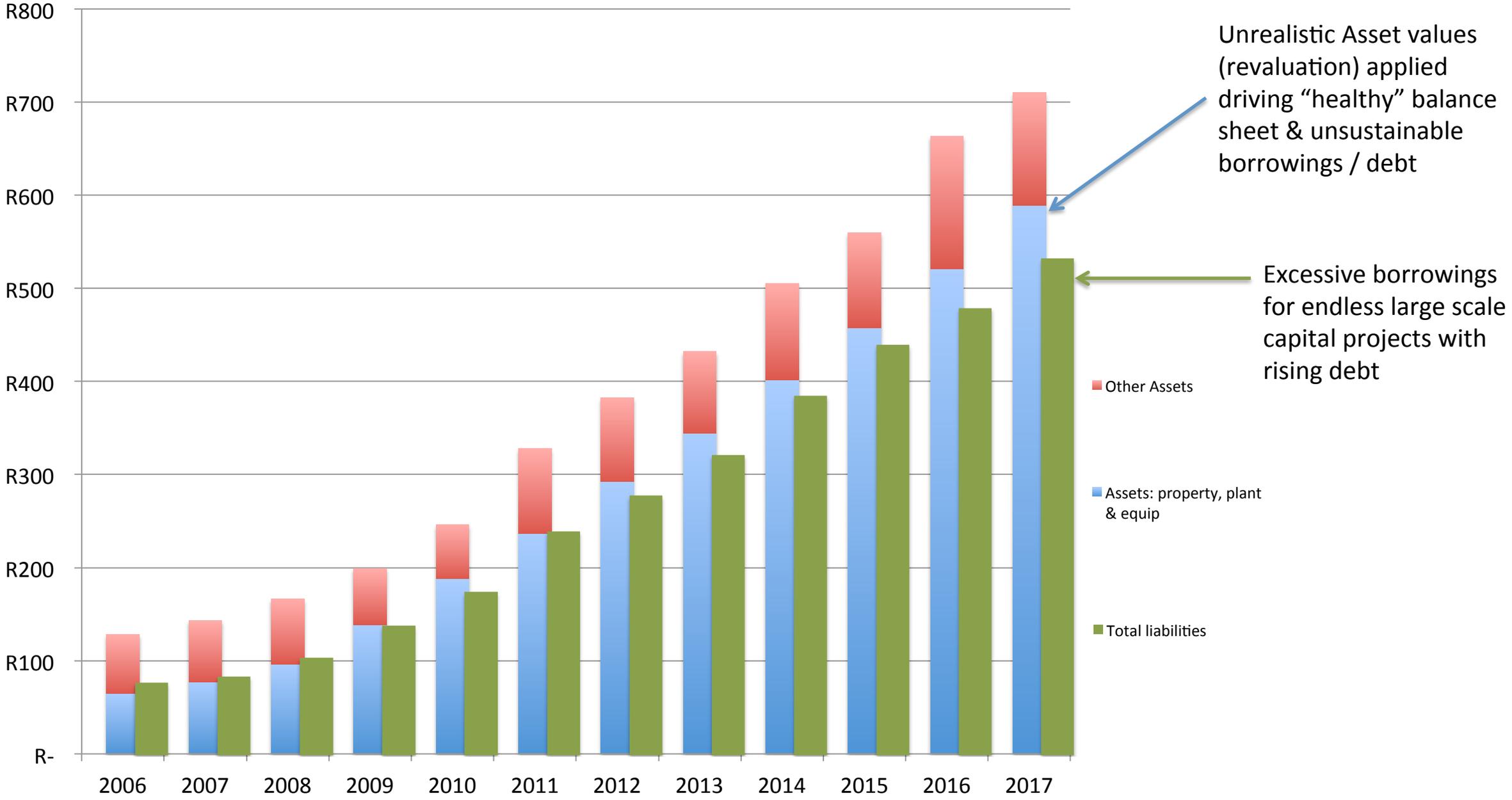
## Employee Costs & Productivity at Eskom

	2006	2017	% Incr
Employees	31,458	47,658	51%
Staff Costs (R X Mil)	R7,907	R33,178	320%
Ave Cost / Employee (Rands)	R251,351	R696,169	177%
Ave Sal / Employee @ CPI (Current Head Count)	<b>R251,351</b>	<b>R649,986</b>	159%
Est Total Staff Cost @ CPI Incr	<b>R7,900</b>	<b>R30,977</b>	292%
<b>Productivity Static</b>			
Eskom GWh Sales	207,921	214,121	3%
Productivity (GWh/Person)	6.6	4.5	<b>-32%</b>
At constant productivity	6.6	6.6	0%
Headcount Should Be @ Constant Productivity	31,458.0	32,443	3%
Salary Cost @ Constant Productivity @ CPI (Rx Mil)	R7,907	<b>R22,586</b>	186%
Overstaffed Headcount:		<b>15,215</b>	
Overstaffing Cost (R mil)		<b>9,890</b>	
Saving / Annum if Reduced by 33% (3 Yrs)		<b>2,997</b>	
Headcount Reduction by 20% over 5 Years		5,072	

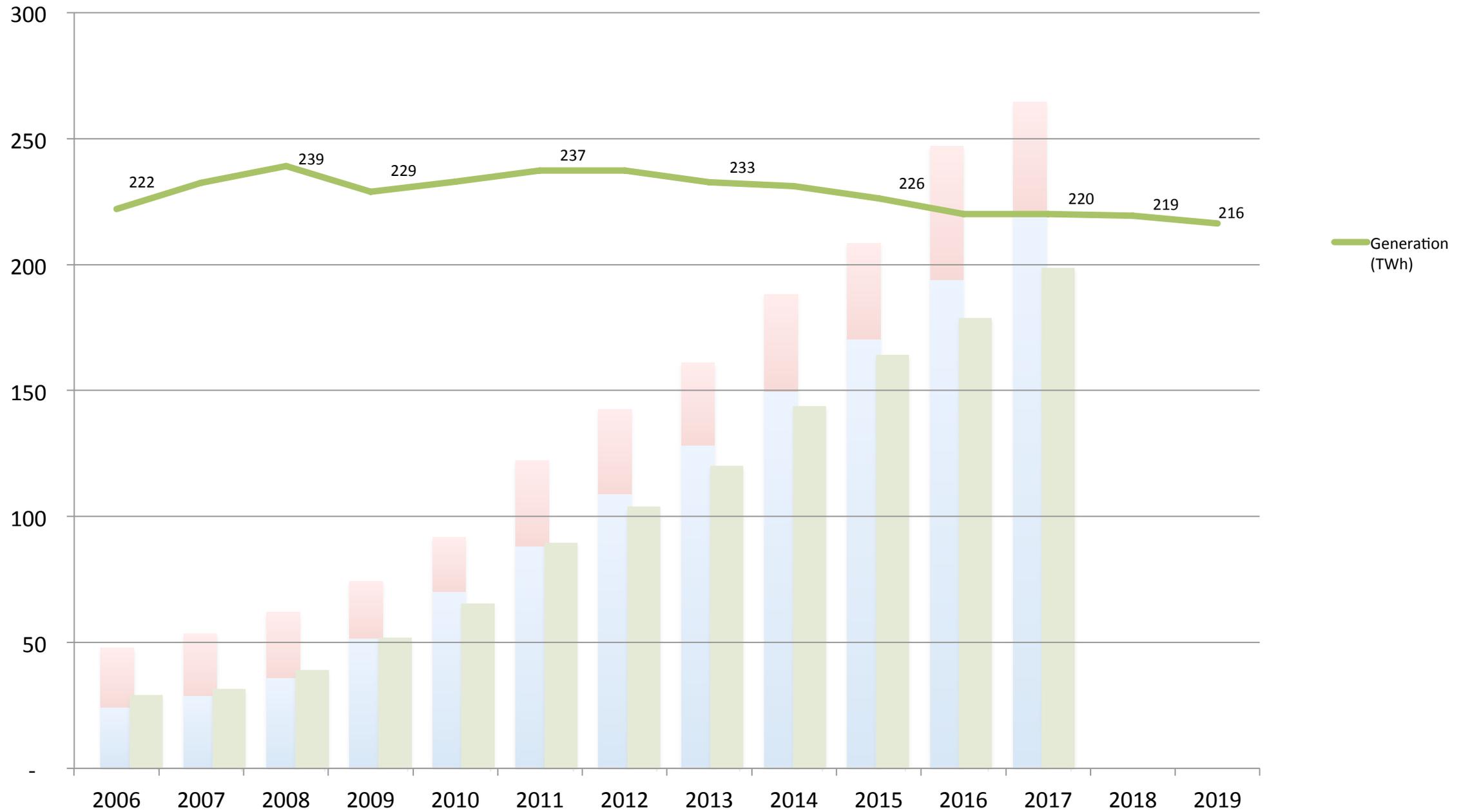
# Coal Stockdays

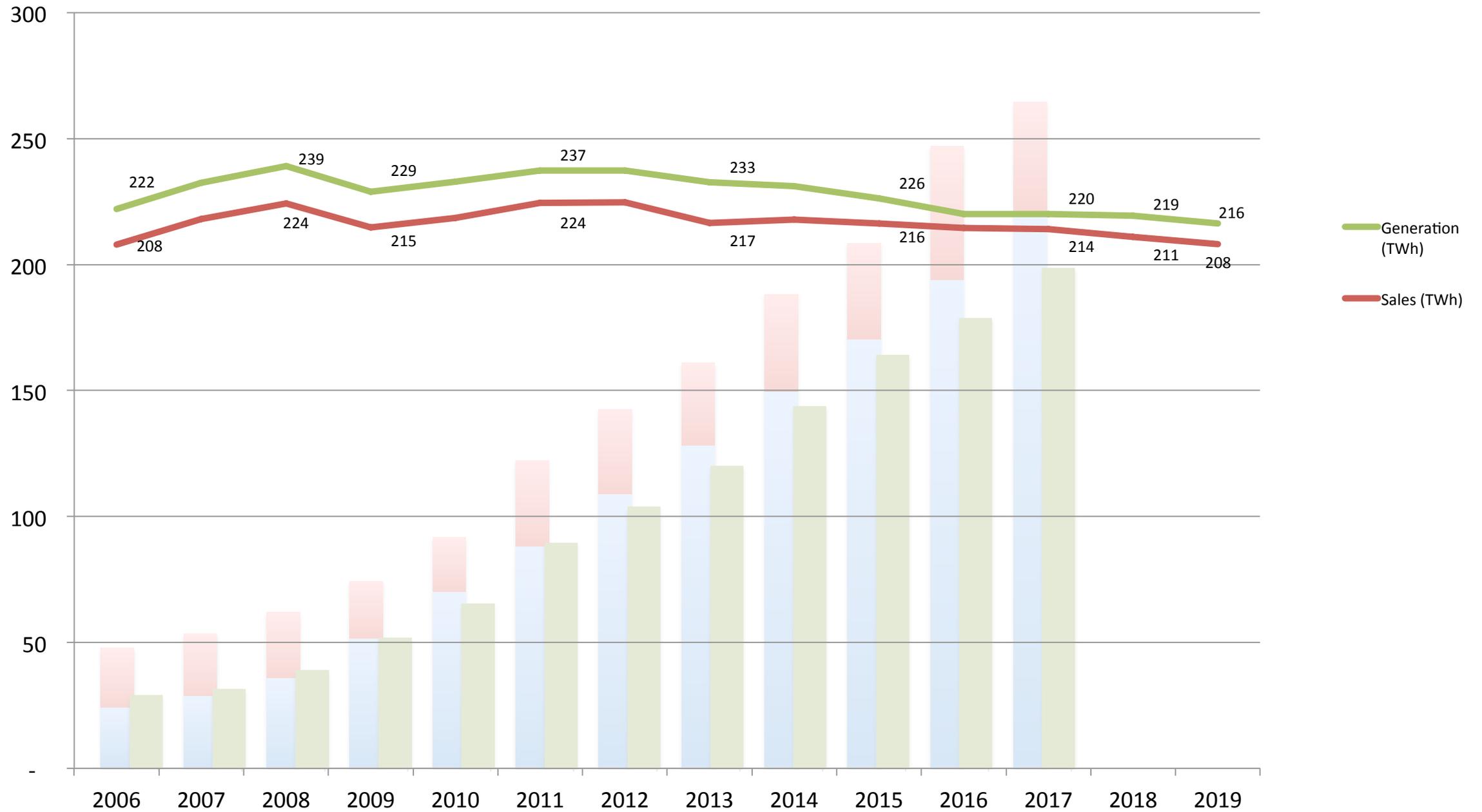


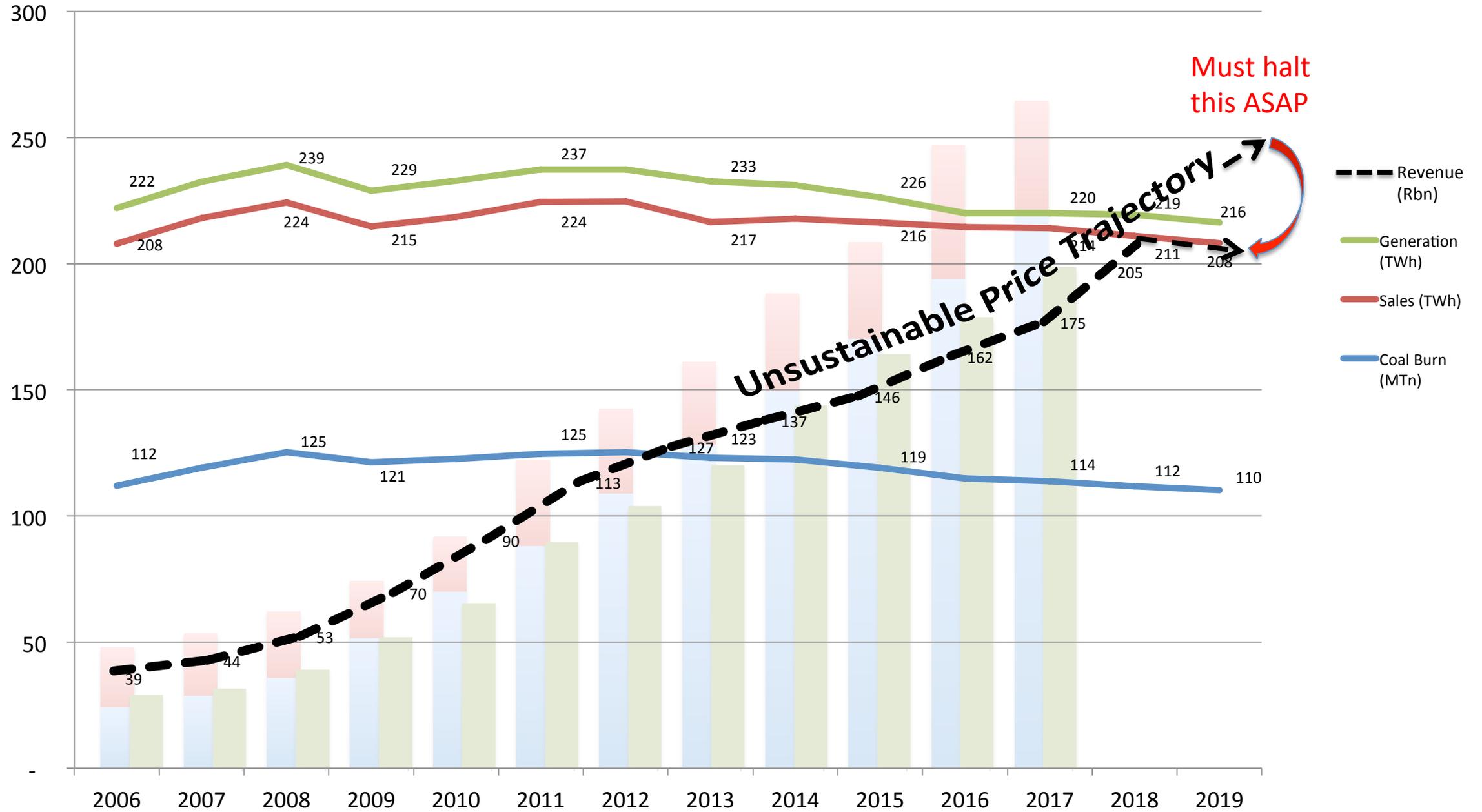
# QUESTIONABLE REVALUATION OF ASSETS



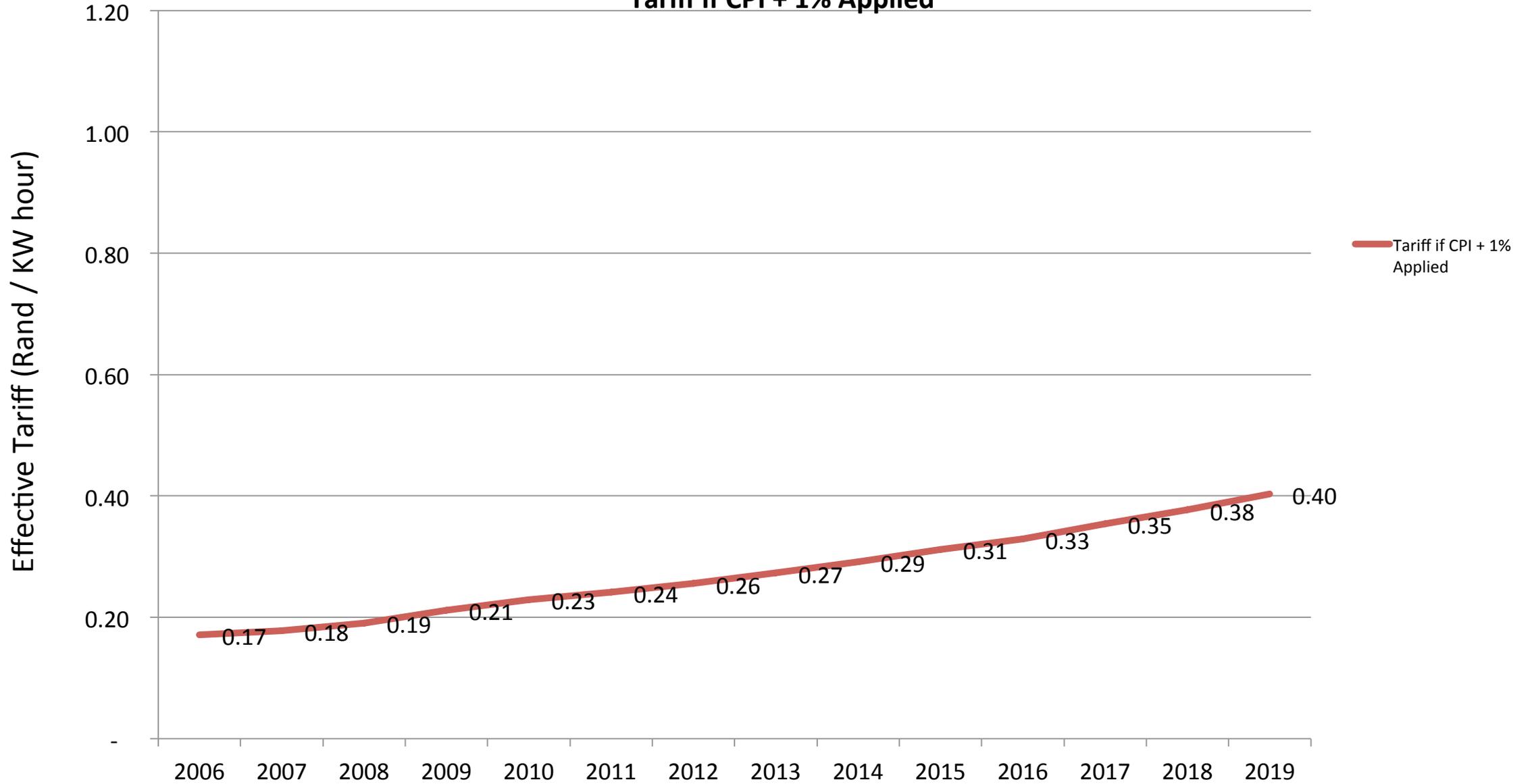




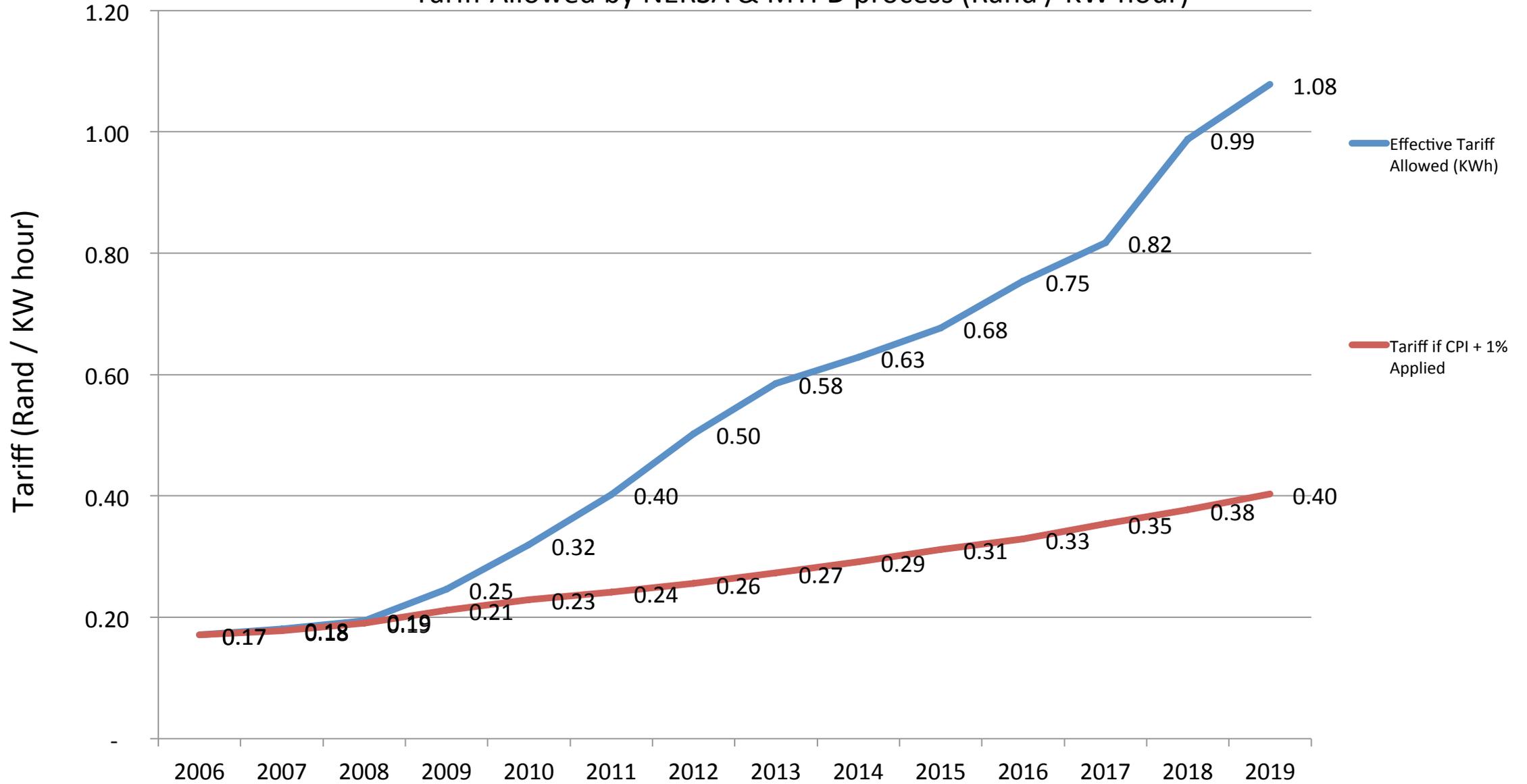




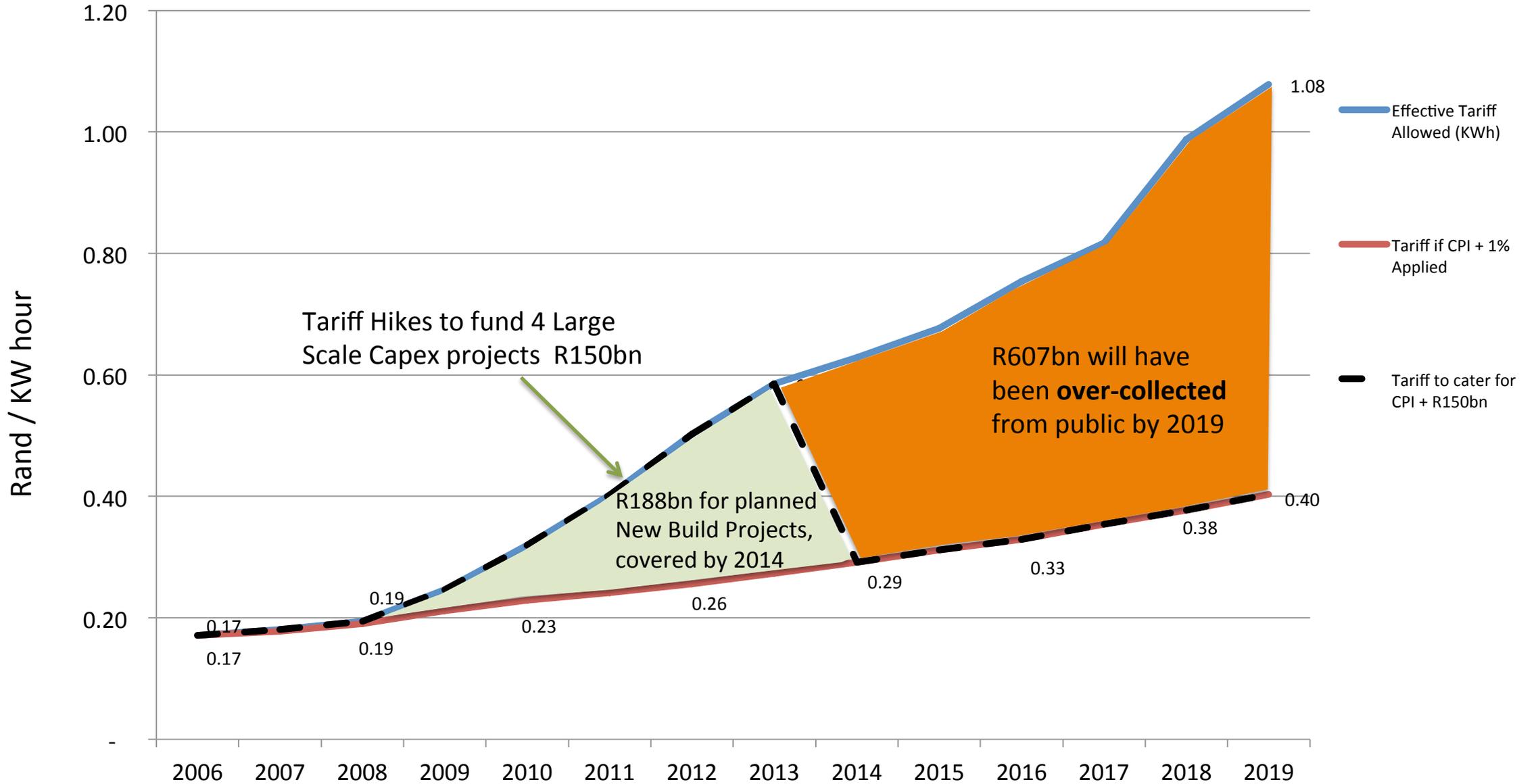
### Tariff if CPI + 1% Applied



Tariff Allowed by NERSA & MYPD process (Rand / KW hour)



# Extent of Over-Collection from Consumers



# New Build Escallations

## Eskom Newbuild (R Bn)

	Benchmark	Q2 2007	Q2 2011	Q2 2013	Q2 2016	Q3 2016	Today
Medupi	36.0	69.1	91.2	105.0	134.0	195.0	?
Kusile	36.0	80.6	100.0	118.5	160.0	225.0	?
<b>TOTAL</b>	<b>72.0</b>	<b>149.7</b>	<b>191.2</b>	<b>223.5</b>	<b>294.0</b>	<b>420.0</b>	<b>550.0</b>
Ingula		8.9				39.0	

**How is this allowed to happen?**

### ESKOM TABLE 1: TOTAL ALLOWABLE REVENUE FOR 2018.19

		ESKOM 2018/19 APPLICATION	LESS OVER- CLAIM	OUTA EST TOTAL 2018/19	NOTES
Regulated Asset Base (RAB)	RAB	<b>763,589</b>	51,076	712,513	Curtail Over claiming of RAB Values and reduce to Last Years figure of R712bn
Weighted Ave Cost of Cap (WACC ) %	ROA	<b>2.97%</b>		2.97%	
Return on Asset		<b>22,690</b>	1,518	21,172	
Expenditure	E	<b>62,221</b>	5,600	56,621	Unnecessary Corruption costs, Irregular Exps and Overstaff costs = R5,6bn (min)
Primary Energy	PE	<b>59,340</b>	1,514	57,826	Excessive Coal Stocks and Costs of Interest for surplus stock: Min R1,5bn
IPPs (Local)	PE	<b>34,209</b>	9,839	24,370	IPP's Not Commissioned and re-base IPP costs due to 2017 Cost at R19,6bn, whilst Application = R21.7
International Purchases	PE	<b>3,126</b>	655	2,471	Over estimated Import GWh by R655m
Depreciation	D	<b>29,140</b>		29,140	
Integrated Demand Management (IDM)	I	<b>511</b>		511	
Research & Development		<b>193</b>		193	
Levies & Taxes		<b>7,994</b>	2,422	5,572	Environmental Levies should be removed. Certainly the VAT thereon. Phase out over 3 yrs
RCA					
<b>TOTAL ALLOWABLE REVENUE</b>		<b>219,424</b>	<b>21,548</b>	<b>197,876</b>	

**-3.6%**

< Reduction on 2017 Revenue.

# RECOMMENDATIONS

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- ❑ Review the Regulatory Asset Base to reflect the reality of Eskom's Economic Assets.
- ❑ Exercise a heavy-handed regulatory approach regarding:
  - Capital Projects' overruns;
- ❑ Irregular expenditure. That NERSA in partnership with DPE strengthen oversight and ensure Eskom's compliance to legislative prescripts:
  - Transparency on all operating costs – week, month, year;
  - Costs & Contract Disclosures.

# RECOMMENDATIONS (CONT.)

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- ❑ That NERSA conduct prudency tests by:
  - Not allowing Eskom to aggregate Primary Energy Costs;
- ❑ Separate reporting for coal, diesel, gas purchases (full disclosure, on line regularly updated information);
- ❑ NERSA engage shareholder (DPE) to ensure and enforce accountability and consequence management at Eskom;
- ❑ NERSA consult National Treasury to phase out Environmental Levies / Tax (over 3 years?);

# RECOMMENDATIONS (CONT.)

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- ❑ Review / replace MYPD Methodology / Rules (not working?);
- ❑ NERSA make recommendations to Government for separation of Generation, Transmission and Distribution (unbundling – OUTA has lodged with Comp Commission);
- ❑ That NERSA lobby relevant authorities to establish an independent inquiry into the affairs of the South African Electricity Supply Industry (a new energy road map);

# RECOMMENDATIONS (CONT.)

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- ❑ Eskom should submit austerity plan on cost reductions over a period of 3 - 5 years (including personnel costs):
  - Plans on how it will address the declining sales versus operating costs.
- ❑ That the number of days for coal stockpiles must be regulated:
  - NERSA must set the benchmark / minimum threshold.
- ❑ Eskom to submit comprehensive & time-bound decommissioning plan of power plants and associated costs.

# CONCLUDING REMARKS

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- ❑ Submission of incomplete and outdated information compromises the integrity of the regulatory process and denies the public ability to make constructive inputs/analysis of its revenue requirement application:
  - NERSA should ensure that Eskom submits **ALL** the required information in terms of the MYPD Rules – to make informed decisions on the proposed tariff increase.
- ❑ NERSA should not grant approval for **ANY** tariff increases for the 2018/19 financial year.
- ❑ Regulatory decisions should be premised on the principle of economic realities and affordability for electricity users.

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**THANK  
YOU**

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